

Department of Legislative Services
 Maryland General Assembly
 2001 Session

FISCAL NOTE
Revised

Senate Bill 311 (Senator Van Hollen, *et al.*)

Finance and Budget and Taxation

Appropriations

Maryland Individual Development Account Act

This bill requires the Secretary of the Department of Human Resources (DHR) to establish an Individual Development Account Demonstration Program. An individual development account (IDA) is a matched savings account for specific goals for qualified individuals. Matching funds from the State and private donations will be provided to eligible individuals. The program will: (1) run from July 1, 2001, until June 30, 2006; (2) be limited to 800 participants; (3) permit matched funding for no more than three years.

Fiscal Summary

State Effect: General fund expenditures could increase by \$824,600 in FY 2002. Future year expenditures increase with annualization and inflation, and reflect the three-year limit on matched funding. Revenues would not be affected. The FY 2002 budget includes \$100,000 for this program, contingent upon enactment of the bill.

(in dollars)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	824,600	1,095,100	1,098,000	381,100	144,400
Net Effect	(\$824,600)	(\$1,095,100)	(\$1,098,000)	(\$381,100)	(\$144,400)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: The individual development account is a savings account for individuals who contract to save funds for educational expenses other than tuition, a home, certain home repairs, or for deposit into a business capitalization account. Each account is active for a three-year period from the time the account is opened; a maximum of 800 accounts may be established. The individual account holder will be assisted in account management and goal attainment by a service provider. A technical assistance organization is to provide overall program management.

The Secretary must solicit and select technical assistance organizations, with overall funding of up to \$80,000 annually, for a maximum of five years. The technical assistance organization designs the program, manages reserve and matching funds, and assists service providers. The technical assistance organization must also provide an annual report to DHR by December 31 of each year with detailed financial information, including the number of program participants.

Service providers are public entities or non-profit organizations that serve as intermediaries between the account holders and the financial institutions to give educational assistance in account management, thereby helping participants to reach pre-set goals. The service provider is also required to recruit and select eligible program participants; maintain matching funds; and assist, educate, and support the success of the program participant. Each provider may assist a maximum of 150 program participants. Pooled federal and State funds under the Temporary Assistance to Needy Families (TANF) program and State Maintenance of Effort (MOE) funds may be used to provide these services to eligible program participants.

The participant must: (1) enter into a contract with a service provider regarding the opening and management of the account; (2) make monthly deposits; (3) select purchase goals; and (4) communicate regularly with the service provider regarding the account. The bill also sets limits on emergency withdrawals, suspension of participant deposits for hardship reasons, sets penalties for unauthorized withdrawals, addresses grievance procedures, and addresses account termination.

The State must provide a \$2 match for each dollar saved, up to a maximum match of \$1,000 per account annually. Pooled TANF and MOE funds may be used to provide State matching funds. DHR will provide the funding for the program to the technical assistance organization on or before July 1 of each year beginning in fiscal 2002. The Secretary shall submit an annual evaluation of the program including a financial statement for the program by July 1 to the Senate Budget and Taxation Committee and the House Appropriations Committee. At the end of the five-year demonstration period,

a report detailing the program's effect and the Secretary's recommendations on program extension must be submitted to the appropriate committees.

Any excess funds remaining at the conclusion of the program shall revert to the general fund.

Current Law: None applicable.

Background: The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) extended IDAs to welfare reform initiatives and authorized states to create community-based IDA programs with TANF Block Grant funds. DHR advises that 25 states currently allow IDAs in their state TANF plan, and 18 of these provide state matching funds.

State Fiscal Effect: General fund expenditures could increase by an estimated \$824,592 in fiscal 2002. General funds are required to support the program as TANF dollars are already fully subscribed. This estimate reflects a 90-day start-up delay and the cost of hiring one program administrator (human services administrator) to administer the demonstration program. It includes a salary, fringe benefits, one-time start-up costs, contractual service costs for technical assistance organizations and service providers, matching funds, and ongoing operating expenses for the staff position as indicated below:

Salary and Fringe Benefits	\$38,467
Technical Assistance	60,000
Service Providers	120,000
Matching Funds	600,000
Other Operating Expenses	<u>6,125</u>
Total FY 2002 State Expenditures	\$824,592

Future year expenditures reflect: (1) a full salary with a 6.5% annual increase in fiscal 2003 and a 4.5% increase each year thereafter, with a 3% employee turnover; (2) 1% annual increases in ongoing operating expenses; and (3) the three-year matching limit.

The program is limited to 800 accounts with a maximum grant amount of \$1,000 per account per year for a maximum of three years. The technical assistance organizations will be provided with \$80,000 each year for five years for a total of \$400,000. The service providers will receive \$200 annually per participant for 800 accounts for a total of \$160,000 per year with a three-year limit. The following table shows the cumulative amount of these specific expenditures over the life of the program.

Matching Grant Funds	\$2,400,000	\$1,000 per year x 800 accounts x 3 years
Technical Assistance	380,000	\$80,000 per year for 4.75 years (accounting for a 90-day start-up delay)
Service Providers	<u>480,000</u>	\$200 per account x 800 accounts x 3 years
Total	\$3,260,000	

Additional Information

Prior Introductions: A similar bill was introduced during the 2000 legislative session as HB 640 and passed in the House and received a favorable report by the Senate Finance Committee without further action.

Cross File: None, although HB 378 (Delegate Rawlings, *et al.* – Appropriations) is identical.

Information Source(s): Department of Human Resources, Department of Legislative Services

Fiscal Note History: First Reader – February 25, 2001
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